

**CITY OF SHELDON
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
JUNE 30, 2006**

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CITY OF SHELDON
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Kurt Tatsumi	Mayor - from January 1, 2006	January 2010
Duane Wahlstrom	Mayor - to December 31, 2005	
Mark Postma	Council Member - to December 31, 2005 and from April 5, 2006	January 2008
Kevin Welch	Council Member	January 2008
Dave Popkes	Council Member	January 2010
Kurt Tatsumi	Council Member - to December 31, 2005	
Ron Rensink	Council Member	January 2008
Duane Seehusen	Council Member - from January 1, 2006	January 2010
Scott Wynja	City Manager	
Arlene Budden	Clerk/Treasurer	
Jack DeHoogh	Attorney	
Skip Tanner	Airport Commissioner	July 2009
Glen Zylstra	Airport Commissioner	July 2010
Steve Drenkow	Airport Commissioner	July 2009
Rob Dixon	Airport Commissioner	July 2010
Scott Meinecke	Airport Commissioner	July 2007
Hal Tuttle	Park Commissioner	July 2009
Thel Boone	Park Commissioner	July 2009
Nikki Cooper	Park Commissioner	July 2007
Jay Theis	Park Commissioner	July 2010
Shelly Miedoma	Park Commissioner	July 2010
Kathy VanderVliet	Library Trustee	July 2009
Rosalind Geels	Library Trustee	July 2009
Jane Cain	Library Trustee	July 2010
Mark Brown	Library Trustee	July 2006
Lisa Meendering	Library Trustee	July 2007
Lynda Huisman	Library Trustee	July 2011
Judy Honkomp	Library Trustee	July 2007
Raeanne Tatsumi	Museum Trustee	July 2008
Marlene Pape	Museum Trustee	July 2007
Joe Wildeman	Museum Trustee	July 2007
Cindy Runger	Museum Trustee	July 2006
Mark Klemme	Museum Trustee	July 2007
Adrian Dorsman	Museum Trustee	July 2008

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Sheldon
Sheldon, IA 51201

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sheldon, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sheldon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sheldon at June 30, 2006 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2007 on our consideration of the City of Sheldon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 50 through 54 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sheldon's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on the June 30, 2004 and 2005 financial statements and a qualified opinion on the June 30, 2002 and 2003 financial statements due to the omission of the general fixed asset account group. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Winter, Steve & Co. LLP

January 5, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sheldon provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 Financial Highlights

- Revenues of the City's governmental activities decreased 2.46%, or approximately \$102,400 from fiscal 2005 to fiscal 2006. Property tax decreased approximately \$220,700.
- Program expenses decreased by 22% or approximately \$1,171,200 in fiscal 2006 from fiscal 2005. Public safety, public works, and culture and recreation increased by approximately \$36,600, \$29,400, and \$43,000, respectively. Community and economic development, general government, debt service, and capital projects decreased by approximately \$15,400, \$190,200, \$385,000, and \$689,600, respectively.
- The City's net assets increased 6.54%, or approximately \$902,800, from June 30, 2005 to June 30, 2006. Of this amount, the net assets of the governmental funds increased by approximately \$848,600 and the net assets of the business type activities increased by approximately \$54,200.

Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the City as a whole and present an overall view of the City's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The City prepares its budget and maintains its financial records on the cash basis.

Reporting The City's Financial Activities

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities reports information which helps answer this question.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has three kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, (c) the Debt Service Fund, and (d) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Proprietary funds account for the City's Enterprise and Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. The Internal Service Fund is used to account for the City's self-insurance activities.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenditures and changes in fund net assets, and a statement of cash flows.

3. Fiduciary funds are used to report assets held in trust or agency capacity for others. The City's fiduciary fund is used to account for employee cafeteria funds.

The required financial statement for fiduciary funds includes a statement of fiduciary assets and liabilities.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

Net Assets as of June 30, 2006

	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 6,284,887	\$1,400,100	\$ 7,684,987
Capital assets	<u>8,986,346</u>	<u>5,359,858</u>	<u>14,346,204</u>
Total assets	<u>15,271,233</u>	<u>6,759,958</u>	<u>22,031,191</u>
Long-term liabilities	3,902,934	684,848	4,587,782
Other liabilities	<u>2,687,920</u>	<u>52,674</u>	<u>2,740,594</u>
Total liabilities	<u>6,590,854</u>	<u>737,522</u>	<u>7,328,376</u>
Net assets:			
Invested in capital assets - net of related debt	6,375,064	4,740,618	11,115,682
Restricted	1,155,893	169,591	1,325,484
Unrestricted	<u>1,149,422</u>	<u>1,112,227</u>	<u>2,261,649</u>
Total net assets	<u>\$ 8,680,379</u>	<u>\$6,022,436</u>	<u>\$14,702,815</u>

Net Assets as of June 30, 2005

	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 6,066,309	\$1,186,472	\$ 7,252,781
Capital assets	<u>8,750,825</u>	<u>5,539,123</u>	<u>14,289,948</u>
Total assets	<u>14,817,134</u>	<u>6,725,595</u>	<u>21,542,729</u>
Long-term liabilities	4,456,559	719,921	5,176,480
Other liabilities	<u>2,528,798</u>	<u>37,407</u>	<u>2,566,205</u>
Total liabilities	<u>6,985,357</u>	<u>757,328</u>	<u>7,742,685</u>
Net assets:			
Invested in capital assets - net of related debt	5,587,672	4,881,123	10,468,795
Restricted	1,011,382	160,500	1,171,882
Unrestricted	<u>1,232,723</u>	<u>926,644</u>	<u>2,159,367</u>
Total net assets	<u>\$ 7,831,777</u>	<u>\$5,968,267</u>	<u>\$13,800,044</u>

Changes in Net Assets for the Year Ended June 30, 2006

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 626,170	\$1,343,997	\$ 1,970,167
Operating grants, contributions, and restricted interest	514,111	3,447	517,558
Capital grants, contributions, and restricted interest	176,235		176,235
General revenues:			
Property and other city taxes	1,273,841		1,273,841
Tax increment financing	1,151,255		1,151,255
Local option sales tax	367,107		367,107
Unrestricted investment earnings	70,225	33,884	104,109
Unrestricted miscellaneous	43,060		43,060
Fixed asset transfers	(76,141)	76,141	
Total revenues	<u>4,145,863</u>	<u>1,457,469</u>	<u>5,603,332</u>
Program expenses:			
Public safety	695,559		695,559
Public works	1,073,998		1,073,998
Culture and recreation	541,213		541,213
Community and economic development	379,407		379,407
General government	416,722		416,722
Debt service	190,362		190,362
Water		762,128	762,128
Sewer		641,172	641,172
Total expenses	<u>3,297,261</u>	<u>1,403,300</u>	<u>4,700,561</u>
Change in net assets	848,602	54,169	902,771
Net assets - beginning of year	<u>7,831,777</u>	<u>5,968,267</u>	<u>13,800,044</u>
Net assets - end of year	<u>\$8,680,379</u>	<u>\$6,022,436</u>	<u>\$14,702,815</u>

Changes in Net Assets for the Year Ended June 30, 2005

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 599,377	\$1,257,029	\$1,856,406
Operating grants, contributions, and restricted interest	493,126	1,671	494,797
Capital grants, contributions, and restricted interest	210,551		210,551
General revenues:			
Property and other city taxes	1,502,401		1,502,401
Tax increment financing	1,015,459		1,015,459
Local option sales tax	356,680		356,680
Unrestricted investment earnings	43,914	22,025	65,939
Unrestricted miscellaneous	20,705		20,705
Operating transfers	19,618	(19,618)	
Total revenues	<u>4,261,831</u>	<u>1,261,107</u>	<u>5,522,938</u>
Program expenses:			
Public safety	695,683		695,683
Public works	1,043,419		1,043,419
Culture and recreation	491,658		491,658
Community and economic development	415,974		415,974
General government	591,200		591,200
Debt service	200,030		200,030
Water		726,421	726,421
Sewer		594,561	594,561
Total expenses	<u>3,437,964</u>	<u>1,320,982</u>	<u>4,758,946</u>
Change in net assets	823,867	(59,875)	763,992
Net assets - beginning of year	<u>7,007,910</u>	<u>6,028,142</u>	<u>13,036,052</u>
Net assets - end of year	<u>\$7,831,777</u>	<u>\$5,968,267</u>	<u>\$13,800,044</u>

Net assets of governmental activities increased from FY05 by approximately \$848,600 or 10.84%. Net assets of business type activities increased from FY05 by approximately \$54,200 or .91%. The largest portion of the City's net assets is the invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Other restricted net assets is land held by the City to be sold or granted to businesses for economic development purposes.

Individual Major Governmental Fund Analysis

Changes in Fund Balances - Governmental Funds
For the year ended June 30,

	2006 <u>All Funds</u>	2005 <u>All Funds</u>
Revenues	\$4,050,118	\$4,152,471
Expenses	<u>4,152,367</u>	<u>5,323,543</u>
Net	(102,249)	(1,171,072)
Other financing sources	<u>128,176</u>	<u>1,587,560</u>
Increase in fund balances	25,927	416,488
Fund balance - beginning of year	<u>2,086,230</u>	<u>1,669,742</u>
Fund balance - end of year	<u>\$2,112,157</u>	<u>\$2,086,230</u>

Governmental funds reported a combined fund balance of \$2,112,157 at June 30, 2006 which was \$25,927 more than the fund balance at June 30, 2005.

The general fund, tax increment financing, road use tax, and debt service fund showed modest changes of \$50,390, \$40,422, \$(29,396), \$(15,810), respectively.

The capital projects fund showed a decrease of \$182,136 due to expenditures being paid from prior year reserves.

Individual Major Business Type Fund Analysis

Changes in Net Assets - Proprietary Funds
For the year ended June 30,

	2006 <u>Enterprise Funds</u>	2005 <u>Enterprise Funds</u>	2006 <u>Internal Service Funds</u>	2005 <u>Internal Service Funds</u>
Revenues	\$1,377,881	\$1,279,054	\$ 408,246	\$ 341,799
Expenses	<u>1,416,694</u>	<u>1,317,351</u>	<u>365,542</u>	<u>346,957</u>
Net	(38,813)	(38,297)	42,704	(5,158)
Net transfers	<u>76,141</u>	<u>(19,618)</u>		
Increase (decrease) in net assets	37,328	(57,915)	42,704	(5,158)
Net assets - beginning of year	<u>5,902,803</u>	<u>5,960,718</u>	<u>193,149</u>	<u>198,307</u>
Net assets - end of year	<u>\$5,940,131</u>	<u>\$5,902,803</u>	<u>\$ 235,853</u>	<u>\$ 193,149</u>

Enterprise funds reported combined net assets of \$5,940,131 at June 30, 2006 which was an increase of \$37,328 over the net assets at June 30, 2005.

The water fund reported net income of \$28,574 before transfers from governmental funds.

The sewer fund reported a net loss of \$67,387 before transfers, which included depreciation expense of \$168,426.

Budgetary Highlights

Over the course of the year, the City did not amend the budget. Actual disbursements did not exceed budgeted amounts.

Capital Assets and Debt Administration

Capital Assets Administration

A summary of the City's capital assets is as follows:

	Capital Assets as of June 30, 2006		
	Governmental Activities	Business Type Activities	Total
Land	\$ 406,000	\$ 84,390	\$ 490,390
Construction in progress	551,798		551,798
Building and improvements	5,348,147	4,853,002	10,201,149
Equipment and vehicles	1,974,268	610,708	2,584,976
Infrastructure	<u>7,228,871</u>	<u>4,072,404</u>	<u>11,301,275</u>
Total capital assets	15,509,084	9,620,504	25,129,588
Less accumulated depreciation	<u>6,522,738</u>	<u>4,260,646</u>	<u>10,783,384</u>
Net capital assets	<u>\$ 8,986,346</u>	<u>\$5,359,858</u>	<u>\$14,346,204</u>
Depreciation expense	<u>\$ 590,970</u>	<u>\$ 274,977</u>	<u>\$ 865,947</u>

	Capital Assets as of June 30, 2005		
	Governmental Activities	Business Type Activities	Total
Land	\$ 406,000	\$ 84,390	\$ 490,390
Construction in progress	39,085		39,085
Building and improvements	5,323,372	4,841,681	10,165,053
Equipment and vehicles	1,913,832	602,458	2,516,290
Infrastructure	<u>7,038,923</u>	<u>3,996,263</u>	<u>11,035,186</u>
Total capital assets	14,721,212	9,524,792	24,246,004
Less accumulated depreciation	<u>5,970,387</u>	<u>3,985,669</u>	<u>9,956,056</u>
Net capital assets	<u>\$8,750,825</u>	<u>\$5,539,123</u>	<u>\$14,289,948</u>
Depreciation expense	<u>\$ 580,702</u>	<u>\$ 272,440</u>	<u>\$ 853,142</u>

Major additions for the year ended June 30, 2006 included 24th Avenue improvements and Sheldon Crossing Phase I.

Debt Administration

At June 30, 2006, the City had \$4,471,398 in bonds and other long-term debt, compared to \$5,059,339 last year as shown below.

	June 30,	
	<u>2006</u>	<u>2005</u>
Tax increment financing	\$ 974,310	\$1,120,035
Sewer utility	625,000	658,000
Lease purchase agreement		29,329
Sales and service tax bonds	1,110,000	1,220,000
Skateboard park loan	14,826	29,276
General obligation bonds	1,405,000	1,645,000
Airport improvement loan	<u>342,262</u>	<u>357,699</u>
Total	<u>\$4,471,398</u>	<u>\$5,059,339</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is well within its constitutional debt limit of \$9,660,131.

Economic Factors and Next Year's Budgets and Rates

The City of Sheldon's elected and appointed officials and department heads considered many factors when setting the fiscal year 2006 - 2007 budget, tax rates, and fees that will be charged for various City activities.

Each year the various departments propose recommendations that are to be considered as part of the budget process. As in years past, items to be considered in the general fund continue to be carefully assessed due to the limited revenue sources available. We continue to use reserve funds and other alternative funding sources to provide quality service to the community. Many of the general funds areas rely on grants, donations and possible reserve funds to complete capital projects. There have been no major programs added to the budget this year. With the state's continuation of roll-back, we continue to fight increased expenditures in the general fund. With that said, the community has seen some quality development over the past few years. This has created some funding options through tax increment financing (TIF) for various infrastructure projects. Going forward, the City Council will have to consider releasing some of these TIF areas to help offset the general fund increased expenses.

Comparisons 2005-2006 to 2006-2007 Management Analysis

In the process of preparing for the 2006 - 2007 budget year, the Sheldon City Council was working with very comparable numbers from the previous year. Due to the continuation of roll-back, general operating items remained the same. With increased expenses, the City Council continues to find ways to provide basic essential services to the community. With minor increases to revenues, it helps to offset some increased expenses. Any major capital expenditures were budgeted from various reserve funds.

This year some of the major projects that have been budgeted for through the general fund include a new administration building at the airport, repairs to the museum clay tile roof, computer upgrades, a new ambulance, a police vehicle, and a car camera system.

Once again this year, we have seen a growth in the amount of revenue being generated through tax increment financing (TIF). With increased demand for development, the City Council continues to consider various infrastructure needs to these areas. With the completion of the Highway 60 Expressway, the City Council will need to continue to evaluate the need for additional improvements for years to come. Some of the projects that are being considered with TIF funds this year are a north water main extension, an extension of a street in the Sunshine Addition and major improvements to C and D Streets. Funds are also being utilized for asphalt overlay projects and potential demolition of some dilapidated buildings. The City Council is also considering districts to be released from TIF and paying down existing debt.

Once again this year, the City proposed a rate increase of 4% to the water and sewer utilities. Due to increased operating costs and potential projects, it was necessary to adopt such an increase. There were once again a number of improvements proposed for these departments. Both facilities improved their control panels to accommodate alarms within their own system. This will provide a much more reliable system to the customers. There were also a number of improvements to the facilities, such as roof repairs, replacing some doors and windows and tuck-pointing. The City also is a member of Lewis and Clark Rural Water System, which will provide an additional 1.3 million gallons per day to the City in the future. The Council is considering bonding for their remaining capital cost share for the project, which is estimated at \$1.8 million. We also continue to improve the various water and sewer lines around the community to improve the service that we provide.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Arlene Budden, City Clerk/Treasurer or Scott Wynja, City Manager, 416 9th St., Sheldon, Iowa.

CITY OF SHELDON
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and pooled investments	\$ 2,127,421	\$ 995,393	\$ 3,122,814
Receivables - net, where applicable, of allowances for uncollectibles:			
Property tax:			
Delinquent	10,842		10,842
Succeeding year	1,118,372		1,118,372
Tax increment financing:			
Delinquent	12,357		12,357
Succeeding year	1,202,113		1,202,113
Accounts and unbilled usage	92,036	167,415	259,451
Special assessments	57,051		57,051
Accrued interest	22,897	11,284	34,181
Due from other governments	112,062		112,062
Inventories		28,382	28,382
Prepaid expenses	106,887		106,887
Land held for resale	170,359		170,359
Restricted assets:			
Cash and pooled investments		189,913	189,913
Accrued interest receivable		1,953	1,953
Due from Sheldon Chamber & Development Corporation (SCDC)	1,217,208		1,217,208
Accrued interest on due from SCDC	35,282		35,282
Loan fees - net of accumulated amortization		5,760	5,760
Capital assets - net of accumulated depreciation	<u>8,986,346</u>	<u>5,359,858</u>	<u>14,346,204</u>
TOTAL ASSETS	<u>15,271,233</u>	<u>6,759,958</u>	<u>22,031,191</u>

CITY OF SHELDON
STATEMENT OF NET ASSETS - Continued
JUNE 30, 2006

	Governmental Activities	Business Type Activities	Total
LIABILITIES			
Accounts payable	\$ 162,454	\$ 29,429	\$ 191,883
Contracts payable	88,062		88,062
Medical claims payable	22,798	15,581	38,379
Salaries payable	8,955	5,623	14,578
Accrued interest payable	28,899	2,041	30,940
Deferred revenues:			
Succeeding year property tax	1,118,372		1,118,372
Succeeding year tax increment financing	1,202,113		1,202,113
Other	56,267		56,267
Long-term liabilities:			
Portion due or payable within one year:			
Customer deposits		22,275	22,275
Compensated absences	74,444	37,573	112,017
General obligation bonds	360,000		360,000
Sales tax bonds	110,000		110,000
Revenue notes		34,000	34,000
Other long-term debt	58,715		58,715
Portion due after one year:			
General obligation bonds - net of unamortized discount	1,882,092		1,882,092
Sales tax bonds	1,000,000		1,000,000
Revenues notes		591,000	591,000
Other long-term debt	417,683		417,683
TOTAL LIABILITIES	<u>6,590,854</u>	<u>737,522</u>	<u>7,328,376</u>
NET ASSETS			
Invested in capital assets - net of related debt	6,375,064	4,740,618	11,115,682
Restricted for:			
Debt service	13,632		13,632
Land held for resale	170,359		170,359
Special revenue purposes	971,902		971,902
Revenue note retirement		9,221	9,221
Sewer improvement		90,000	90,000
Sewer replacement		70,370	70,370
Unrestricted	1,149,422	1,112,227	2,261,649
TOTAL NET ASSETS	<u>\$ 8,680,379</u>	<u>\$6,022,436</u>	<u>\$14,702,815</u>

CITY OF SHELDON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

			<u>Program Revenues</u>	
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
	<u>Expenses</u>	<u>Charges for Services</u>		
FUNCTIONS/PROGRAMS:				
GOVERNMENTAL ACTIVITIES:				
Public safety	\$ 695,559	\$ 155,874	\$ 17,924	\$ 1,925
Public works	1,073,998	287,817	412,877	17,342
Culture and recreation	541,213	102,881	76,309	
Community and economic development ...	379,407	350	6,755	156,968
General government	416,722	24,310	246	
Interest and fees on long-term debt	<u>190,362</u>	<u>54,938</u>		
TOTAL GOVERNMENTAL ACTIVITIES	<u>3,297,261</u>	<u>626,170</u>	<u>514,111</u>	<u>176,235</u>
BUSINESS TYPE ACTIVITIES:				
Water	762,128	777,612	1,806	
Sewer	<u>641,172</u>	<u>566,385</u>	<u>1,641</u>	
TOTAL BUSINESS TYPE ACTIVITIES	<u>1,403,300</u>	<u>1,343,997</u>	<u>3,447</u>	
 TOTAL	 <u>\$4,700,561</u>	 <u>\$1,970,167</u>	 <u>\$517,558</u>	 <u>\$176,235</u>
GENERAL REVENUES:				
Property and other city taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
Unrestricted miscellaneous				
Fixed asset transfers				
TOTAL GENERAL REVENUES				
CHANGE IN NET ASSETS				
NET ASSETS - BEGINNING OF YEAR				
NET ASSETS - END OF YEAR				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (519,836)		\$ (519,836)
(355,962)		(355,962)
(362,023)		(362,023)
(215,334)		(215,334)
(392,166)		(392,166)
<u>(135,424)</u>	<u> </u>	<u>(135,424)</u>
<u>(1,980,745)</u>	<u> </u>	<u>(1,980,745)</u>
	\$ 17,290	17,290
<u> </u>	<u>(73,146)</u>	<u>(73,146)</u>
<u> </u>	<u>(55,856)</u>	<u>(55,856)</u>
<u>(1,980,745)</u>	<u>(55,856)</u>	<u>(2,036,601)</u>
1,191,005		1,191,005
82,836		82,836
1,151,255		1,151,255
367,107		367,107
70,225	33,884	104,109
43,060		43,060
<u>(76,141)</u>	<u>76,141</u>	<u> </u>
<u>2,829,347</u>	<u>110,025</u>	<u>2,939,372</u>
848,602	54,169	902,771
<u>7,831,777</u>	<u>5,968,267</u>	<u>13,800,044</u>
<u>\$8,680,379</u>	<u>\$6,022,436</u>	<u>\$14,702,815</u>

CITY OF SHELTON
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

ASSETS

	<u>General</u>	<u>Tax Increment Financing</u>	<u>Road Use Tax</u>	<u>Debt Service</u>
ASSETS:				
Cash and pooled investments	\$ 659,966	\$ 262,605	\$ 78,322	\$ 6,395
Receivables - net, where applicable, of allowance for uncollectibles:				
Property tax:				
Delinquent	6,771			786
Succeeding year	713,335			30,780
Tax increment financing:				
Delinquent		12,357		
Succeeding year		1,202,113		
Accounts	90,146			
Special assessments	57,051			
Accrued interest	10,976	1,384		68
Due from other governments	3,830		32,040	
Land held for resale				
Due from Sheldon Chamber & Development Corporation (SCDC)				
Accrued interest on due from SCDC				
TOTAL ASSETS	<u>\$1,542,075</u>	<u>\$1,478,459</u>	<u>\$110,362</u>	<u>\$ 38,029</u>

LIABILITIES AND FUND EQUITY

LIABILITIES:				
Accounts payable	\$ 117,624	\$ 3,975	\$ 13,222	
Contracts payable				
Due to other funds				
Salaries payable	5,741		2,249	
Deferred revenue:				
Succeeding year property tax	713,335			\$ 30,780
Succeeding year tax increment financing		1,202,113		
Due from SCDC and related accrued interest				
Other	57,051			
TOTAL LIABILITIES	<u>893,751</u>	<u>1,206,088</u>	<u>15,471</u>	<u>30,780</u>
FUND BALANCES:				
Reserved for debt service				7,249
Reserved for land held for resale				
Unreserved:				
Designated for future equipment purchases	163,043		34,660	
Undesignated:				
Reported in:				
General fund	485,281			
Special revenue funds		272,371	60,231	
Capital projects funds				
TOTAL FUND BALANCES	<u>648,324</u>	<u>272,371</u>	<u>94,891</u>	<u>7,249</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$1,542,075</u>	<u>\$1,478,459</u>	<u>\$110,362</u>	<u>\$ 38,029</u>

See Notes to Financial Statements

EXHIBIT C

<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 367,426	\$ 596,105	\$1,970,819
	3,285	10,842
	374,257	1,118,372
		12,357
		1,202,113
		90,146
		57,051
2,589	5,448	20,465
	76,192	112,062
170,359		170,359
1,217,208		1,217,208
<u>35,282</u>	<u> </u>	<u>35,282</u>
<u>\$1,792,864</u>	<u>\$1,055,287</u>	<u>\$6,017,076</u>

\$ 27,362	\$ 271	\$ 162,454
88,062		88,062
	15,422	15,422
	965	8,955
	374,257	1,118,372
		1,202,113
1,252,490		1,252,490
		57,051
<u>1,367,914</u>	<u>390,915</u>	<u>3,904,919</u>

		7,249
170,359		170,359

197,703

		485,281
	664,372	996,974
254,591		254,591
<u>424,950</u>	<u>664,372</u>	<u>2,112,157</u>

<u>\$1,792,864</u>	<u>\$1,055,287</u>	<u>\$6,017,076</u>
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See Notes to Financial Statements

CITY OF SHELDON
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

TOTAL GOVERNMENTAL FUND BALANCES PER EXHIBIT C	\$2,112,157
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$15,509,084 and the accumulated depreciation is \$6,522,738.	8,986,346
Prepaid expenses are not available to pay current period expenses and, therefore, are not recorded in the funds.	106,887
The receivable and related accrued interest due from Sheldon Chamber & Development Corporation are not available to pay current period expenses and, therefore, are deferred in the funds.	1,252,490
Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds.	784
The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	153,548
Long-term liabilities, including bonds and other long-term debt, compensated absences, and accrued interest payable, are not due and payable within the current period and, therefore, are not reported as liabilities in the funds.	<u>(3,931,833)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A	<u>\$8,680,379</u>

CITY OF SHELDON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Tax Increment Financing</u>	<u>Road Use Tax</u>	<u>Debt Service</u>
REVENUES:				
Property tax	\$ 728,227			\$ 80,680
Tax increment financing		\$1,151,255		
Other city taxes	56,709			2,156
Licenses and permits	10,443			
Use of money and property	87,296	13,956		5,134
Intergovernmental	77,276		\$411,072	
Charges for services	492,286			
Special assessments	653			
Miscellaneous	87,371	350		
TOTAL REVENUES	<u>1,540,261</u>	<u>1,165,561</u>	<u>411,072</u>	<u>87,970</u>
EXPENDITURES:				
Public safety	547,143			
Public works	301,051		410,039	
Culture and recreation	393,631			
Community and economic development ...	30,624	70,541		
General government	214,194			
Debt service	15,337	34,261	30,429	548,316
Capital projects		177,383		
TOTAL EXPENDITURES	<u>1,501,980</u>	<u>282,185</u>	<u>440,468</u>	<u>548,316</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>38,281</u>	<u>883,376</u>	<u>(29,396)</u>	<u>(460,346)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	34,537			464,536
Operating transfers out	(32,428)	(842,954)		(20,000)
Gain on sale of fixed assets	10,000			
Gain on sale of lots				
TOTAL OTHER FINANCING SOURCES (USES)	<u>12,109</u>	<u>(842,954)</u>		<u>444,536</u>
NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	50,390	40,422	(29,396)	(15,810)
FUND BALANCES - BEGINNING OF YEAR	<u>597,934</u>	<u>231,949</u>	<u>124,287</u>	<u>23,059</u>
FUND BALANCES - END OF YEAR	<u>\$ 648,324</u>	<u>\$ 272,371</u>	<u>\$ 94,891</u>	<u>\$ 7,249</u>

EXHIBIT E

<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
	\$ 354,556	\$1,163,463
		1,151,255
	418,620	477,485
		10,443
\$ 8,792	20,313	135,491
		488,348
		492,286
		653
<u>10,468</u>	<u>32,505</u>	<u>130,694</u>
<u>19,260</u>	<u>825,994</u>	<u>4,050,118</u>
	162,587	709,730
	108,901	819,991
	39,048	432,679
	45,223	146,388
	105,900	320,094
	153,115	781,458
<u>745,411</u>	<u>19,233</u>	<u>942,027</u>
<u>745,411</u>	<u>634,007</u>	<u>4,152,367</u>
<u>(726,151)</u>	<u>191,987</u>	<u>(102,249)</u>
425,839	25,007	949,919
	(54,537)	(949,919)
		10,000
<u>118,176</u>	<u> </u>	<u>118,176</u>
<u>544,015</u>	<u>(29,530)</u>	<u>128,176</u>
(182,136)	162,457	25,927
<u>607,086</u>	<u>501,915</u>	<u>2,086,230</u>
<u>\$ 424,950</u>	<u>\$ 664,372</u>	<u>\$2,112,157</u>

CITY OF SHELDON
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2006

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS PER EXHIBIT E	\$ 25,927
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AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN
 THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital expenditures exceeded depreciation expense for the year, as follows:

Expenditures for capital assets	\$ 902,632	
Transferred to water and sewer	(76,141)	
Depreciation expense	<u>(590,970)</u>	235,521

Prepaid expenses are not available to pay current period expenses and, therefore, are not recorded in the funds. The change in prepaid expenses results in differences between the statements, as follows:

Prepaid expenses - end of year	106,887	
Prepaid expenses - beginning of year	<u>(123,272)</u>	(16,385)

The receivable and related accrued interest due from Sheldon Chamber & Development Corporation (SCDC) is not available to pay current period expenses and, therefore, are deferred in the funds. The change in these deferred amounts results in differences between the statements as follows:

Due from SCDC deferred - end of year	1,217,208	
Accrued interest SCDC deferred - end of year	35,282	
Due from SCDC deferred - beginning of year	(1,217,208)	
Accrued interest SCDC deferred - beginning of year	<u>(34,470)</u>	812

Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds. The change in these deferred amounts results in differences between the statements, as follows:

Special assessments deferred - end of year	784	
Ambulance and other receivables deferred - beginning of year	(15,388)	
Special assessments deferred - beginning of year	<u>(1,382)</u>	(15,986)

CITY OF SHELDON
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF ACTIVITIES - Continued
 FOR THE YEAR ENDED JUNE 30, 2006

Proceeds from issuing long-term liabilities provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded new issues, as follows:

Amortization of bond discount	\$ (3,070)	
Repayments	<u>554,941</u>	\$ 551,871

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The change in these accrued expenses results in differences between the statements, as follows:

Compensated absences - end of year	(74,444)	
Accrued interest payable - end of year	(28,899)	
Compensated absences - beginning of year	76,198	
Accrued interest payable - beginning of year	<u>68,124</u>	40,979

The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the change in net assets of the internal service fund is reported with governmental activities.

25,863

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
 PER EXHIBIT B

\$ 848,602

CITY OF SHELDON
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2006

	ASSETS			Internal Service
	Enterprise Funds			
	Water	Sewer	Total	Self-Insurance
ASSETS				
Cash and pooled investments	\$ 707,812	\$ 203,639	\$ 911,451	\$240,544
Receivables - net of allowance for uncollectibles:				
Accounts and unbilled usage	97,916	68,485	166,401	2,904
Accrued interest	6,965	3,016	9,981	3,735
Inventories	18,245	10,137	28,382	
Due from other funds	36,377		36,377	27,049
Restricted assets:				
Revenue note and interest sinking account:				
Cash and pooled investments		9,221	9,221	
Revenue note improvement account:				
Cash and pooled investments		90,000	90,000	
Revenue note debt service account:				
Cash and pooled investments		68,417	68,417	
Accrued interest		1,953	1,953	
Customer deposits - cash	22,275		22,275	
Loan fees - net of accumulated amortization		5,760	5,760	
Capital assets - net of accumulated depreciation	<u>2,197,409</u>	<u>3,162,449</u>	<u>5,359,858</u>	
TOTAL ASSETS	<u>3,086,999</u>	<u>3,623,077</u>	<u>6,710,076</u>	<u>274,232</u>
LIABILITIES:				
Accounts payable	11,049	18,380	29,429	
Medical claims payable				38,379
Salaries payable	2,953	2,670	5,623	
Due to other funds	6,150	41,854	48,004	
Payable from restricted assets:				
Accrued interest payable		2,041	2,041	
Customer deposits	22,275		22,275	
Revenue bonds payable		625,000	625,000	
Compensated absences	<u>15,640</u>	<u>21,933</u>	<u>37,573</u>	
TOTAL LIABILITIES	<u>58,067</u>	<u>711,878</u>	<u>769,945</u>	<u>38,379</u>
NET ASSETS:				
Invested in capital assets - net of related debt	2,197,409	2,543,209	4,740,618	
Restricted for:				
Revenue note retirement		9,221	9,221	
Sewer improvement		90,000	90,000	
Sewer replacement		70,370	70,370	
Unrestricted	<u>831,523</u>	<u>198,399</u>	<u>1,029,922</u>	<u>235,853</u>
TOTAL NET ASSETS	<u>\$3,028,932</u>	<u>\$2,911,199</u>	<u>\$5,940,131</u>	<u>\$235,853</u>

CITY OF SHELDON
 RECONCILIATION OF STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO
 THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

TOTAL NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT G	\$5,940,131
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AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE
 STATEMENT OF NET ASSETS IS DIFFERENT BECAUSE:

The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the assets and liabilities of the internal service fund are included in business type activities in the Statement of Net Assets.	<u>82,305</u>
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TOTAL NET ASSETS - BUSINESS TYPE ACTIVITIES PER EXHIBIT A	<u>\$6,022,436</u>
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CITY OF SHELDON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Enterprise Funds</u>			<u>Internal Service</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Self-Insurance</u>
OPERATING REVENUES:				
Charges for services	\$ 765,827	\$ 566,385	\$1,332,212	
Reimbursements from operating funds				\$325,717
Reimbursements from employees and insurance				74,324
Miscellaneous:				
Miscellaneous	<u>11,785</u>		<u>11,785</u>	
TOTAL OPERATING REVENUES	<u>777,612</u>	<u>566,385</u>	<u>1,343,997</u>	<u>400,041</u>
OPERATING EXPENSES:				
Business type activities:				
Cost of sales and services	662,841	452,752	1,115,593	
Depreciation	106,551	168,426	274,977	
Amortization		438	438	
Insurance charges and claims				<u>365,542</u>
TOTAL OPERATING EXPENSES	<u>769,392</u>	<u>621,616</u>	<u>1,391,008</u>	<u>365,542</u>
OPERATING INCOME (LOSS)	<u>8,220</u>	<u>(55,231)</u>	<u>(47,011)</u>	<u>34,499</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest income	20,354	13,530	33,884	8,205
Interest expense:				
Revenue note		<u>(25,686)</u>	<u>(25,686)</u>	
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>20,354</u>	<u>(12,156)</u>	<u>8,198</u>	<u>8,205</u>
NET LOSS BEFORE TRANSFERS FROM GOVERNMENTAL FUNDS	28,574	(67,387)	(38,813)	42,704
Fixed assets transferred in	<u>45,396</u>	<u>30,745</u>	<u>76,141</u>	
CHANGE IN NET ASSETS	73,970	(36,642)	37,328	42,704
NET ASSETS - BEGINNING OF YEAR	<u>2,954,962</u>	<u>2,947,841</u>	<u>5,902,803</u>	<u>193,149</u>
NET ASSETS - END OF YEAR	<u>\$3,028,932</u>	<u>\$2,911,199</u>	<u>\$5,940,131</u>	<u>\$235,853</u>

CITY OF SHELDON
 RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
 NET ASSETS - PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2006

TOTAL CHANGE IN NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT I \$ 37,328

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE
 STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

The internal service fund is used by the City to charge the cost of partial self
 funding the City's health insurance benefit plan to the individual funds. A portion
 of the change in net assets of the internal service fund is reported with business
 type activities. 16,841

CHANGE IN NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT B \$ 54,169

CITY OF SHELDON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Enterprise Funds</u>			<u>Internal Service</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Self-Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 769,302	\$ 563,075	\$1,332,377	
Cash received from employees and insurance				\$ 71,770
Other operating receipts	11,785		11,785	
Cash payments from operating funds				298,668
Cash payments to employees for services	(216,175)	(210,443)	(426,618)	
Cash payments for goods and services	(454,446)	(235,144)	(689,590)	(363,973)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>110,466</u>	<u>117,488</u>	<u>227,954</u>	<u>6,465</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Interfund loans	<u>35,000</u>	<u>(35,000)</u>		
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>35,000</u>	<u>(35,000)</u>		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of fixed assets		(11,321)	(11,321)	
Principal paid on revenue note		(33,000)	(33,000)	
Interest paid on revenue note		(25,794)	(25,794)	
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES		<u>(70,115)</u>	<u>(70,115)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	<u>13,618</u>	<u>9,555</u>	<u>23,173</u>	<u>5,152</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>13,618</u>	<u>9,555</u>	<u>23,173</u>	<u>5,152</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	159,084	21,928	181,012	11,617
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>571,003</u>	<u>349,349</u>	<u>920,352</u>	<u>228,927</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 730,087</u>	<u>\$ 371,277</u>	<u>\$1,101,364</u>	<u>\$240,544</u>

CITY OF SHELDON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Enterprise Funds</u>			<u>Internal Service</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Self-Insurance</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
OPERATING INCOME (LOSS)	\$ 8,220	\$ (55,231)	\$ (47,011)	\$ 34,499
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation	106,551	168,426	274,977	
Amortization		438	438	
Changes in assets and liabilities:				
(Increase) in accounts receivable and unbilled usage	(18,136)	(3,310)	(21,446)	(2,554)
(Increase) decrease in inventories	9,893	(2,471)	7,422	
(Increase) in due from other funds				(27,049)
Increase (decrease) in accounts payable	(269)	4,284	4,015	
Increase in medical claims payable				1,569
Increase in due to other funds	6,150	5,477	11,627	
Increase (decrease) in salaries payable	(59)	64	5	
Increase in customer deposits	2,075		2,075	
(Decrease) in compensated absences ..	(3,959)	(189)	(4,148)	
TOTAL ADJUSTMENTS	<u>102,246</u>	<u>172,719</u>	<u>274,965</u>	<u>(28,034)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 110,466</u>	<u>\$ 117,488</u>	<u>\$ 227,954</u>	<u>\$ 6,465</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET ASSETS				
Cash and pooled investments	\$ 707,812	\$ 203,639	\$ 911,451	\$240,544
Restricted assets - cash and pooled investments:				
Revenue note and interest sinking account		9,221	9,221	
Revenue note improvement account		90,000	90,000	
Revenue note debt service account		68,417	68,417	
Customer deposits	<u>22,275</u>		<u>22,275</u>	
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 730,087</u>	<u>\$ 371,277</u>	<u>\$1,101,364</u>	<u>\$240,544</u>

CITY OF SHELDON
 STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>Enterprise Funds</u>			<u>Internal Service</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Self-Insurance</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
Two water projects and a sewer project were paid by a governmental fund type and transferred to the enterprise funds.				
Cost transferred in	\$ 45,396	\$ 30,745	\$ 76,141	\$ _____

CITY OF SHELDON
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2006

	Agency Cafeteria <u>Plan</u>
ASSETS:	
Cash and pooled investments	\$ 6,782
LIABILITIES:	
Cafeteria plan benefits payable	<u>6,782</u>
NET ASSETS	<u>\$</u>

CITY OF SHELDON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sheldon is a political subdivision of the State of Iowa located in O'Brien and Sioux Counties. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Sheldon provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. It also provides water and sewer utilities.

The financial statements of the City of Sheldon have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. It was determined that the City has no component units.

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Northwest Iowa Area Solid Waste Agency, O'Brien County Emergency Management Association, O'Brien County E911 Board, Lewis and Clark Rural Water, and other various organizations.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Additionally, the City has reported an investment in land held for resale as restricted.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Tax Increment Financing Revenues Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Road Use Tax Fund is used to account for revenues received from the State of Iowa used for road construction and maintenance.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

Additionally, the City reports the following funds:

Proprietary Fund - An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Fund - Agency Fund is used to account for assets held by the City as an agent for individuals.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charged to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales

and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of interest-bearing cash accounts, certificates of deposit, and perfected repurchase agreements which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2006 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2005.

Accounts and Unbilled Usage Receivable - Accounts receivable are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Special Assessments Receivable - Special assessments receivable represents the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other tax.

Due From Other Governments - Due from other governments represents various shared revenues, grants, and reimbursements due from other governments. Shared revenues are recognized during the period received by the collecting authority, the State of Iowa.

Inventories - Proprietary Fund inventories of materials and supplies are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The cost of inventories in the governmental funds are recorded as an expenditure at the time individual inventory items are purchased.

Restricted Assets - Proceeds from debt and funds set aside for payment of the enterprise fund revenue note are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include property held for resale in the capital projects fund which represents land which the City has purchased. The City intends to sell the property as soon as possible. In addition, other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of two years.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	40 - 50 years
Improvements other than buildings	10 - 40 years
Vehicles	5 - 10 years
Equipment	5 - 20 years
Infrastructure	10 - 40 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of delinquent property tax receivable, special assessments receivable, amounts due from the Sheldon Chamber and Development Corporation, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied, and special assessments that are ag deferred.

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Road Use Funds.

Long-term Liabilities - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. CASH AND INVESTMENTS

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2006 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash and investments consisted of the following at June 30, 2006:

Cash on hand	\$ 160
Demand deposits	79,443
Certificates of deposit/savings accounts	2,770,906
Repurchase agreements	<u>469,000</u>
	<u>\$3,319,509</u>

The City's investments in repurchase agreements are collateralized by obligations of the United States government or its agencies. The City has signed a custodial agreement with the custodian. The repurchase agreements are reported at cost, which approximates market value. These investments are insured or registered with the securities held by the City or its agent in the City's name.

3. ALLOWANCES FOR COLLECTION LOSSES

Allowances have been made for estimated collection losses on the following receivable amounts:

	<u>Gross Receivables</u>	<u>Allowance for Collection Losses</u>	<u>Net Receivables</u>
Accounts and unbilled usage:			
General Fund	\$ 97,546	\$ 7,400	\$ 90,146
Enterprise Fund:			
Water	101,996	4,080	97,916
Sewer	71,338	2,853	68,485
Internal Service Fund:			
Self insurance	<u>2,904</u>	<u> </u>	<u>2,904</u>
	<u>\$273,784</u>	<u>\$ 14,333</u>	<u>\$259,451</u>

4. DUE FROM SHELDON CHAMBER AND DEVELOPMENT CORPORATION

During the year ended June 30, 2005, the City issued \$1,535,000 of taxable capital loan notes. A portion of the bond issue was granted to the Sheldon Chamber and Development Corporation (SCDC). The SCDC used the grant to purchase land for development and resale. The SCDC has agreed to pay \$18,042 per acre to the City as the land is sold. The price is anticipated to repay the grant, professional fees incurred by the City, and the SCDC's share of interest expense on the bond issue. A summary of the amount due as of June 30, 2006 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Balance due at June 30, 2005	\$1,217,208	\$ 34,470	\$1,251,678
Interest accrued to June 30, 2006		54,938	54,938
Amount forgiven by City during the year ended June 30, 2006	<u> </u>	<u>(54,126)</u>	<u>(54,126)</u>
Balance due at June 30, 2006	<u>\$1,217,208</u>	<u>\$ 35,282</u>	<u>\$1,252,490</u>

The due from SCDC is deferred in the governmental fund financial statements since it is not an available financial resource.

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
GOVERNMENTAL ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress	\$ 39,085	\$ 512,713			\$ 551,798
Land	406,000				406,000
Total capital assets not being depreciated	<u>445,085</u>	<u>512,713</u>			<u>957,798</u>
Capital assets being depreciated:					
Buildings and improvements	5,323,372	24,775			5,348,147
Equipment and vehicles	1,913,832	99,055	\$ (38,619)		1,974,268
Infrastructure	7,038,923	266,089		\$ (76,141)	7,228,871
Total capital assets being depreciated	<u>14,276,127</u>	<u>389,919</u>	<u>(38,619)</u>	<u>(76,141)</u>	<u>14,551,286</u>
TOTAL COST OF CAPITAL ASSETS	<u>14,721,212</u>	<u>902,632</u>	<u>(38,619)</u>	<u>(76,141)</u>	<u>15,509,084</u>
ACCUMULATED DEPRECIATION:					
Buildings and improvements	1,958,737	171,597			2,130,334
Equipment and vehicles	1,141,365	151,087	(38,619)		1,253,833
Infrastructure	2,870,285	268,286			3,138,571
TOTAL ACCUMULATED DEPRECIATION	<u>5,970,387</u>	<u>590,970</u>	<u>(38,619)</u>		<u>6,522,738</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	<u>\$ 8,750,825</u>	<u>\$ 311,662</u>	<u>\$</u>	<u>\$ (76,141)</u>	<u>\$ 8,986,346</u>
	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
BUSINESS TYPE ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Land	\$ 84,390				\$ 84,390
Water and sewer plants	4,841,681	\$ 11,321			4,853,002
Equipment and vehicles	602,458	8,250			610,708
Infrastructure	3,996,263			\$ 76,141	4,072,404
TOTAL COST	<u>9,524,792</u>	<u>19,571</u>		<u>76,141</u>	<u>9,620,504</u>
ACCUMULATED DEPRECIATION:					
Water and sewer plants	2,677,521	129,701			2,807,222
Equipment and vehicles	330,778	42,122			372,900
Infrastructure	977,370	103,154			1,080,524
TOTAL ACCUMULATED DEPRECIATION	<u>3,985,669</u>	<u>274,977</u>			<u>4,260,646</u>
BUSINESS TYPE CAPITAL ASSETS - NET	<u>\$ 5,539,123</u>	<u>\$(255,406)</u>	<u>\$</u>	<u>\$ 76,141</u>	<u>\$ 5,359,858</u>
COST OF LOAN FEES	<u>\$ 8,750</u>				<u>\$ 8,750</u>
Less accumulated amortization	<u>2,552</u>	<u>\$ 438</u>			<u>2,990</u>
LOAN FEES - NET	<u>\$ 6,198</u>	<u>\$ (438)</u>	<u>\$</u>	<u>\$</u>	<u>\$ 5,760</u>

Depreciation was charged to functions of the government as follows:

Governmental Activities:	
Public safety	\$ 49,175
Public works	307,054
Culture and recreation	154,852
General government	79,889
Total Governmental Activities	<u>\$590,970</u>
Business Type Activities:	
Water	\$106,551
Sewer	168,426
Total Business Type Activities	<u>\$274,977</u>

6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Final Due Date</u>
GOVERNMENTAL ACTIVITIES:				
GENERAL OBLIGATION BONDS/NOTES:				
Essential corporate purpose	9-01-99	5.00-5.40%	\$1,500,000	6-01-2012
Refunding capital loan notes	5-01-03	2.60%	990,000	6-01-2007
Taxable capital loan notes	11-15-04	3.65-5.05%	1,535,000	6-01-2012
TOTAL				
Less unamortized bond discount ..				
NET GENERAL OBLIGATION BONDS/NOTES				
SALES AND SERVICE TAX BONDS:				
Refunding bonds	5-01-03	2.70 - 4.30%	1,415,000	6-01-2015
OTHER LONG-TERM DEBT:				
Rungers interim TIF loan	4-20-00	6.35%	250,000	5-25-2010
USDA airport loan	6-06-01	4.75%	400,000	6-05-2021
Capital lease	4-18-03		87,895	
Skateboard park loan	8-26-03	3.00%	43,505	7-01-2006
TOTAL				
COMPENSATED ABSENCES				
TOTAL GOVERNMENTAL ACTIVITIES				
BUSINESS TYPE ACTIVITIES:				
REVENUE NOTES:				
Sewer revenue capital loan notes	9-15-99	3.92%	814,000	6-01-2020
CUSTOMER DEPOSITS				
COMPENSATED ABSENCES				
TOTAL BUSINESS TYPE ACTIVITIES				

<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
\$ 975,000		\$120,000	\$ 855,000	\$125,000
110,000		80,000	30,000	30,000
<u>1,535,000</u>	<u> </u>	<u>160,000</u>	<u>1,375,000</u>	<u>205,000</u>
2,620,000		360,000	2,260,000	360,000
<u>(20,978)</u>	<u> </u>	<u>(3,070)</u>	<u>(17,908)</u>	<u> </u>
<u>2,599,022</u>	<u> </u>	<u>356,930</u>	<u>2,242,092</u>	<u>360,000</u>
<u>1,220,000</u>	<u> </u>	<u>110,000</u>	<u>1,110,000</u>	<u>110,000</u>
145,035		25,725	119,310	27,718
357,699		15,437	342,262	16,171
29,329		29,329		
<u>29,276</u>	<u> </u>	<u>14,450</u>	<u>14,826</u>	<u>14,826</u>
<u>561,339</u>	<u> </u>	<u>84,941</u>	<u>476,398</u>	<u>58,715</u>
<u>76,198</u>	<u> </u>	<u>1,754</u>	<u>74,444</u>	<u>74,444</u>
<u>\$4,456,559</u>	<u> </u>	<u>\$553,625</u>	<u>\$3,902,934</u>	<u>\$603,159</u>
\$ 658,000		\$ 33,000	\$ 625,000	\$ 34,000
20,200	\$ 2,075		22,275	22,275
<u>41,721</u>	<u> </u>	<u>4,148</u>	<u>37,573</u>	<u>37,573</u>
<u>\$ 719,921</u>	<u>\$ 2,075</u>	<u>\$ 37,148</u>	<u>\$ 684,848</u>	<u>\$ 93,848</u>

General Obligation Bonds/Notes

The City's total general obligation bonds/notes at June 30, 2006 were \$2,260,000. The bonds issued in September 1999 are anticipated to be repaid with tax increment financing revenues, and a portion of the bonds issued in November 2004 are anticipated to be repaid from repayments from the Sheldon Chamber and Development Corporation.

Sales and Service Tax Bonds

On October 3, 1995, the residents of the City approved a local option sales tax at the rate of 1%. The revenues must be applied 37.5% for property tax relief and 62.5% for community betterment. The City has issued sales and service tax bonds to defray the cost of the Community Services Center project in accordance with Chapter 422B. The bonds are payable from 62.5% of the local option sales tax collected. If the 62.5% is insufficient to pay the bonds and interest, the shortfall may be paid from debt service. Therefore, the bonds are a general obligation of the City.

Revenue Notes

The City has a sewer revenue capital loan note issued under a loan agreement between the City of Sheldon, the Iowa Finance Authority, the Iowa Department of Natural Resources, and Norwest Bank Iowa, N.A.

The resolution providing for the issuance of the sewer revenue capital loan note include the following provisions:

- (A) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate sewer revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) Additional monthly transfers shall be made to a separate sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking account.
- (D) Additional monthly transfers of \$2,500 to a sewer improvement account shall be made until a balance of \$90,000 has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking and reserve accounts and to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget and for capital improvements to the systems.
- (E) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the note falling due in the same year.

During the year ended June 30, 2006, the City was in compliance with all the revenue note provisions.

Other Long-term Debt

As of June 30, 2006, this debt consisted of the following:

- (1) Rungers Interim TIF Loan - This loan was used to purchase land for resale. The loan has an unpaid balance of \$119,310 as of June 30, 2006. The loan calls for monthly payments of \$2,855 including interest at 6.35%. The City will make these payments from TIF revenues. The loan is secured by real property.
- (2) Airport Loan - This loan was made through the United States Department of Agriculture for improvements at the City's airport. The loan has an unpaid balance of \$342,262 as of June 30, 2006, which will be paid from the general fund. The notes call for annual payments of \$32,428 including interest at 4.75%.
- (3) Skateboard Park Loan - This loan was issued to finance a new skateboard park. The loan has an unpaid balance of \$14,826 as of June 30, 2006. The loan calls for annual payments of \$15,337 including interest at 3%.

A summary of the City's long-term debt maturities is as follows:

Year Ending June 30,	Governmental Activities					
	General Obligation Bonds/Notes		Sales and Service Tax Bonds		Rungers Interim TIF Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 360,000	\$105,775	\$ 110,000	\$ 40,530	\$ 27,718	\$ 6,544
2008	345,000	91,262	110,000	37,560	29,288	4,973
2009	360,000	76,098	115,000	34,260	31,203	3,059
2010	380,000	59,607	120,000	30,522	31,101	1,014
2011	400,000	41,493	125,000	26,322		
2012	415,000	21,518	125,000	21,698		
2013			130,000	16,823		
2014			135,000	11,623		
2015			140,000	6,020		
2016						
2017						
2018						
2019						
2020						
2021						
Total	<u>\$2,260,000</u>	<u>\$395,753</u>	<u>\$1,110,000</u>	<u>\$225,358</u>	<u>\$119,310</u>	<u>\$ 15,590</u>

Governmental Activities - Continued

Year Ending June 30,	Skateboard Park Loan		USDA Airport Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 14,826	\$ 494	\$ 16,171	\$ 16,257	\$ 528,715	\$169,600
2008			16,939	15,489	501,227	149,284
2009			17,743	14,685	523,946	128,102
2010			18,586	13,842	549,687	104,985
2011			19,469	12,959	544,469	80,774
2012			20,394	12,034	560,394	55,250
2013			21,362	11,066	151,362	27,889
2014			22,377	10,051	157,377	21,674
2015			23,440	8,988	163,440	15,008
2016			24,553	7,875	24,553	7,875
2017			25,720	6,708	25,720	6,708
2018			26,941	5,487	26,941	5,487
2019			28,221	4,207	28,221	4,207
2020			29,562	2,866	29,562	2,866
2021			30,784	1,462	30,784	1,462
Total	<u>\$ 14,826</u>	<u>\$ 494</u>	<u>\$ 342,262</u>	<u>\$143,976</u>	<u>\$3,846,398</u>	<u>\$781,171</u>

Business Type Activities

Year Ending June 30,	Revenue Notes	
	Principal	Interest
2007	\$ 34,000	\$ 24,500
2008	36,000	23,167
2009	37,000	21,756
2010	39,000	20,306
2011	40,000	18,777
2012	42,000	17,209
2013	43,000	15,562
2014	45,000	13,877
2015	47,000	12,113
2016	49,000	10,270
2017	50,000	8,350
2018	52,000	6,390
2019	54,000	4,351
2020	57,000	2,234
Total	<u>\$625,000</u>	<u>\$198,862</u>

7. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 23,840
	FICA/IPERS	<u>10,697</u>
		<u>34,537</u>
Debt Service	General	32,428
	Special Revenue:	
	Tax increment financing	<u>432,108</u>
		<u>464,536</u>
Special Revenue:	Special Revenue:	
LMI	Tax increment financing	<u>20,007</u>
Special Revenue:	Special Revenue:	
Trails Maintenance	Local option sales tax	<u>5,000</u>
Capital Projects	Special Revenue:	
	LMI	15,000
	Tax Increment financing	390,839
	Debt Service	<u>20,000</u>
		<u>425,839</u>
TOTAL OPERATING TRANSFERS		<u>\$949,919</u>

8. DUE FROM AND DUE TO OTHER FUNDS

The detail of the interfund receivable and payable at June 30, 2006 is as follows:

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
Proprietary:	Special Revenue:	
Internal Service:	FICA/IPERS	\$ 15,422
Self-Insurance	Proprietary:	
	Enterprise:	
	Water	6,150
	Sewer	<u>5,477</u>
		<u>\$ 27,049</u>

The amount represents June 2006 self-insurance charges not paid until July 2007.

Proprietary:	Proprietary:	
Enterprise:	Enterprise	
Water	Sewer	<u>\$ 36,377</u>

The amount represents the amount due for sewer capital assets paid by water.

9. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered salaries. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$72,846, \$69,899, and \$73,986, respectively, equal to the required contributions for each year.

10. OTHER EMPLOYEE BENEFITS

All full-time City employees accumulate sick leave hours for subsequent use. The accumulation of sick leave hours did not vest as of June 30, 2006 and therefore is not recognized as a liability until used by the employee or upon retirement or death. If paid upon retirement or death, payment is made for up to 50 percent of accrued sick leave, not to exceed 60 days. The City's approximate contingent liability for the unvested sick leave as of June 30, 2006 is as follows:

Governmental activities	\$206,708
Business type activities	<u>108,465</u>
 TOTAL	 <u>\$315,173</u>

11. HEALTH CARE FACILITY REVENUE BONDS AND HOUSING REVENUE NOTES

The City has issued a total of \$11,880,000 of Health Care Facility Revenue Bonds and Housing Revenue Notes under the provisions of Chapter 419 of the Code of Iowa, of which \$8,808,186 is outstanding at June 30, 2006. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

12. RELATED PARTY TRANSACTIONS

The City has business transactions between the City and City officials, totaling \$115,810 during the year ended June 30, 2006. See item 06-II-D in the Schedule of Findings.

13. CONTRACT COMMITMENTS

The City has entered into a construction contract for Sheldon Crossings Phase I improvements. A summary of the contract is as follows:

Contract total	\$414,838
Completed as of June 30, 2006	<u>402,745</u>
Uncompleted	<u>\$ 12,093</u>

The City has committed approximately \$1,800,000 to the Lewis and Clark Rural Water System, Inc. The City's contribution will be expensed or capitalized as construction is completed and the City pays its share.

The City has also entered into several tax increment financing rebate agreements with local businesses. The City has agreed to rebate the taxes paid by the business over a period of years. The City will expense the rebates as the taxes are collected and returned to the businesses.

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2006, the City has entered into four construction contracts for various improvements. The contracts total \$814,849.

15. SIGNIFICANT GROUP CONCENTRATION OF CREDIT RISK

In the course of selling water and sewer services, the City grants credit to customers, all of whom are local residents.

16. RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006 were \$106,887.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City has established a self-insurance health insurance fund (an internal service fund) to account for group insurance risks. The City's plan has established a specific stop-loss amount of \$20,000 and an aggregate stop-loss of 125% of expected claims for the year. The City purchases commercial insurance for claims in excess of coverage provided.

The claims liability of \$38,379 reported in the fund at June 30, 2006 is based on claims reported but unpaid and estimated claims incurred but not reported as of June 30, 2006. Changes in the balances of claims liability during the year are as follows:

Unpaid claims - June 30, 2005	\$ 36,810
Incurred claims	257,429
Less claims paid	<u>(255,860)</u>
Unpaid claims - June 30, 2006	<u>\$ 38,379</u>

The City has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

17. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

18. COLLECTIVE BARGAINING AGREEMENT

All employees, except for the office personnel and management, are covered by collective bargaining agreements which expire June 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SHELDON
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
GOVERNMENTAL AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
RECEIPTS:			
Property taxes	\$1,163,190		\$1,163,190
Other city taxes	455,606		455,606
Tax increment financing revenues	1,146,197		1,146,197
Licenses and permits	10,685		10,685
Use of money and property	124,824	\$ 28,325	153,149
Intergovernmental	520,969		520,969
Charges for services	476,627	1,631,045	2,107,672
Special assessments	653		653
Miscellaneous	133,531	83,555	217,086
TOTAL RECEIPTS	<u>4,032,282</u>	<u>1,742,925</u>	<u>5,775,207</u>
DISBURSEMENTS:			
Program:			
Public safety	668,867		668,867
Public works	811,163		811,163
Culture and recreation	428,609		428,609
Community and economic development	146,387		146,387
General government	319,084		319,084
Debt service	781,458		781,458
Capital projects	824,432		824,432
Business type		1,186,323	1,186,323
Non-program	34,940	363,973	398,913
TOTAL DISBURSEMENTS	<u>4,014,940</u>	<u>1,550,296</u>	<u>5,565,236</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>17,342</u>	<u>192,629</u>	<u>209,971</u>
OTHER FINANCING SOURCES (USES):			
Operating transfer in	949,919		949,919
Operating transfer out	(949,919)		(949,919)
Proceeds - sale of assets	151,709		151,709
TOTAL OTHER FINANCING SOURCES	<u>151,709</u>		<u>151,709</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS	169,051	192,629	361,680
BALANCE - BEGINNING OF YEAR	<u>1,808,550</u>	<u>1,149,279</u>	<u>2,957,829</u>
BALANCE - END OF YEAR	<u>\$1,977,601</u>	<u>\$1,341,908</u>	<u>\$3,319,509</u>

Less Funds Not Required to be <u>Budgeted</u>	<u>Net Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Final to Actual Variance</u>
	\$1,163,190	\$1,155,311	\$1,155,311	\$ 7,879
	455,606	414,326	414,326	41,280
	1,146,197	1,077,909	1,077,909	68,288
	10,685	37,175	37,175	(26,490)
\$ 6,405	146,744	135,465	135,465	11,279
	520,969	1,903,142	1,903,142	(1,382,173)
298,668	1,809,004	1,788,250	1,788,250	20,754
	653	597	597	56
<u>78,755</u>	<u>138,331</u>	<u>120,802</u>	<u>120,802</u>	<u>17,529</u>
<u>383,828</u>	<u>5,391,379</u>	<u>6,632,977</u>	<u>6,632,977</u>	<u>(1,241,598)</u>
	668,867	670,325	670,325	1,458
	811,163	1,623,867	1,623,867	812,704
	428,609	764,718	764,718	336,109
	146,387	574,003	574,003	427,616
	319,084	384,121	384,121	65,037
	781,458	880,258	880,258	98,800
	824,432	947,036	947,036	122,604
	1,186,323	1,206,845	1,206,845	20,522
<u>398,913</u>	<u>5,166,323</u>	<u>7,051,173</u>	<u>7,051,173</u>	<u>1,884,850</u>
<u>(15,085)</u>	<u>225,056</u>	<u>(418,196)</u>	<u>(418,196)</u>	<u>643,252</u>
	949,919	1,264,874	1,264,874	(314,955)
	(949,919)	(1,264,874)	(1,264,874)	314,955
<u>151,709</u>	<u>151,709</u>	<u>100,000</u>	<u>100,000</u>	<u>51,709</u>
<u>151,709</u>	<u>151,709</u>	<u>100,000</u>	<u>100,000</u>	<u>51,709</u>
(15,085)	376,765	(318,196)	(318,196)	694,961
<u>262,411</u>	<u>2,695,418</u>	<u>2,843,702</u>	<u>2,843,702</u>	<u>(148,284)</u>
<u>\$247,326</u>	<u>\$3,072,183</u>	<u>\$2,525,506</u>	<u>\$2,525,506</u>	<u>\$ 546,677</u>

CITY OF SHELDON
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Governmental Funds</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
REVENUES	\$4,032,282	\$ 17,836	\$4,050,118
EXPENDITURES/EXPENSES	<u>4,014,940</u>	<u>137,427</u>	<u>4,152,367</u>
NET	17,342	(119,591)	(102,249)
OTHER FINANCING SOURCES (USES) - NET	151,709	(23,533)	128,176
BEGINNING FUND BALANCES/NET ASSETS	<u>1,808,550</u>	<u>277,680</u>	<u>2,086,230</u>
ENDING FUND BALANCES/NET ASSETS	<u>\$1,977,601</u>	<u>\$134,556</u>	<u>\$2,112,157</u>

Proprietary Funds

<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
\$1,742,925	\$ 43,202	\$1,786,127
<u>1,550,296</u>	<u>231,940</u>	<u>1,782,236</u>
192,629	(188,738)	3,891
	76,141	76,141
<u>1,149,279</u>	<u>4,946,673</u>	<u>6,095,952</u>
<u>\$1,341,908</u>	<u>\$4,834,076</u>	<u>\$6,175,984</u>

CITY OF SHELDON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
FOR THE YEAR ENDED JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The budget was not amended during the year and disbursements did not exceed budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SHELDON
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>Special Revenue Funds</u>		
	<u>FICA/IPERS</u>	<u>LMI</u>	<u>Emergency</u>
ASSETS:			
Cash and pooled investments	\$101,584	\$ 39,139	
Receivables:			
Property tax:			
Delinquent	3,072		\$ 213
Succeeding year	351,318		22,939
Accrued interest	940	150	
Due from other governments	_____	_____	_____
 TOTAL ASSETS	 <u>\$456,914</u>	 <u>\$ 39,289</u>	 <u>\$ 23,152</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable			
Due to other funds	\$ 15,422		
Salaries payable	965		
Deferred revenue:			
Succeeding year property tax	<u>351,318</u>	_____	<u>\$ 22,939</u>
TOTAL LIABILITIES	<u>367,705</u>	_____	<u>22,939</u>
 FUND BALANCES:			
Unreserved:			
Undesignated:			
Reported in special revenue funds	<u>89,209</u>	<u>\$ 39,289</u>	<u>213</u>
TOTAL FUND BALANCES	<u>89,209</u>	<u>39,289</u>	<u>213</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$456,914</u>	 <u>\$ 39,289</u>	 <u>\$ 23,152</u>

Schedule 1

<u>Special Revenue Funds</u>			
<u>Local Option Sales Tax</u>	<u>Hotel/Motel Tax</u>	<u>Trails Maintenance</u>	<u>Total</u>
\$329,993		\$125,389	\$ 596,105
			3,285
			374,257
4,358			5,448
<u>76,192</u>	<u> </u>	<u> </u>	<u>76,192</u>
<u>\$410,543</u>	<u>\$ </u>	<u>\$125,389</u>	<u>\$1,055,287</u>
		\$ 271	\$ 271
			15,422
			965
			374,257
<u> </u>	<u> </u>	<u>271</u>	<u>390,915</u>
<u>\$410,543</u>	<u> </u>	<u>125,118</u>	<u>664,372</u>
<u>410,543</u>	<u> </u>	<u>125,118</u>	<u>664,372</u>
<u>\$410,543</u>	<u>\$ </u>	<u>\$125,389</u>	<u>\$1,055,287</u>

CITY OF SHELDON
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
ALL NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Special Revenue Funds</u>		
	<u>FICA/IPERS</u>	<u>LMI</u>	<u>Emergency</u>
REVENUES:			
Property tax	\$331,553		\$ 23,003
Other city taxes	12,599		874
Use of money and property	2,407	\$ 894	
Miscellaneous	654		
TOTAL REVENUES	<u>347,213</u>	<u>894</u>	<u>23,877</u>
EXPENDITURES:			
Public safety	162,587		
Public works	108,901		
Culture and recreation	28,063		
Community and economic development			
General government	15,719		
Debt service			
Capital projects			
TOTAL EXPENDITURES	<u>315,270</u>	<u></u>	<u></u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>31,943</u>	<u>894</u>	<u>23,877</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in		20,007	
Operating transfers out	<u>(10,697)</u>	<u>(15,000)</u>	<u>(23,840)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(10,697)</u>	<u>5,007</u>	<u>(23,840)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	21,246	5,901	37
FUND BALANCES - BEGINNING OF YEAR	<u>67,963</u>	<u>33,388</u>	<u>176</u>
FUND BALANCES - END OF YEAR	<u>\$ 89,209</u>	<u>\$ 39,289</u>	<u>\$ 213</u>

Schedule 2

<u>Special Revenue Funds</u>			
<u>Local Option Sales Tax</u>	<u>Hotel/Motel Tax</u>	<u>Trails Maintenance</u>	<u>Total</u>
			\$ 354,556
\$367,107	\$ 38,040		418,620
13,923		\$ 3,089	20,313
		31,851	32,505
<u>381,030</u>	<u>38,040</u>	<u>34,940</u>	<u>825,994</u>
			162,587
			108,901
		10,985	39,048
7,183	38,040		45,223
90,181			105,900
153,115			153,115
19,233			19,233
<u>269,712</u>	<u>38,040</u>	<u>10,985</u>	<u>634,007</u>
<u>111,318</u>		<u>23,955</u>	<u>191,987</u>
		5,000	25,007
<u>(5,000)</u>			<u>(54,537)</u>
<u>(5,000)</u>		<u>5,000</u>	<u>(29,530)</u>
106,318		28,955	162,457
<u>304,225</u>		<u>96,163</u>	<u>501,915</u>
<u>\$410,543</u>	<u>\$</u>	<u>\$125,118</u>	<u>\$ 664,372</u>

CITY OF SHELDON
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES:				
Property tax	\$1,163,463	\$1,384,120	\$1,491,423	\$1,399,790
Tax increment financing	1,151,255	1,015,459	796,738	639,346
Other City taxes	477,485	474,961	429,393	448,712
Licenses and permits	10,443	10,550	9,745	9,456
Use of money and property	135,491	109,513	85,833	51,943
Intergovernmental	488,348	607,991	880,275	544,934
Charges for services	492,286	472,642	489,557	415,049
Special assessments	653	3,920	13,317	2,196
Miscellaneous	<u>130,694</u>	<u>73,315</u>	<u>149,550</u>	<u>148,154</u>
 TOTAL REVENUES	 <u>\$4,050,118</u>	 <u>\$4,152,471</u>	 <u>\$4,345,831</u>	 <u>\$3,659,580</u>
 EXPENDITURES:				
Public safety	\$ 709,730	\$ 673,145	\$ 747,850	\$ 854,399
Public works	819,991	790,576	762,801	837,203
Health and social services			500	
Culture and recreation	432,679	389,688	462,945	497,679
Community and economic development	146,388	161,755	92,725	147,238
General government	320,094	510,249	408,718	428,921
Debt service	781,458	1,166,454	926,169	937,058
Capital projects	<u>942,027</u>	<u>1,631,676</u>	<u>1,200,276</u>	<u>190,945</u>
 TOTAL EXPENDITURES	 <u>\$4,152,367</u>	 <u>\$5,323,543</u>	 <u>\$4,601,984</u>	 <u>\$3,893,443</u>

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
City of Sheldon
Sheldon, IA 51201

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheldon, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 5, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all matters in the internal control that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sheldon, and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winters, Stan HC RLP

January 5, 2007

CITY OF SHELDON
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements

No findings were noted.

CITY OF SHELDON
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Required Statutory Reporting

06-II-A Certified Budget - Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.

06-II-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

06-II-C Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

06-II-D Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Rensink, Council Member, Owner of Perspective Insurance	Insurance	\$114,330
Kurt Tatsumi, Mayor, Owner of K-T Industries and Signature Printing	Printing and supplies	885
Dave Popkes, Council Member, Owner of Dave's Appliance	Service work	235
Mark Postma, Council Member, Owner Bubbles/Bee Kleen	Sewing work	360

The transactions with Mr. Tatsumi, Mr. Popkes, and Mr. Postma do not appear to be a conflict of interest since the total paid to each individual was less than \$1,500.

The transactions with Mr. Rensink do not appear to be a conflict of interest since they relate primarily to payment on the City's Iowa Community Assurance Pool (ICAP) insurance policy. The contract with ICAP was signed prior to Mr. Rensink being a council member and is therefore an exception under Chapter 362.5(7) of the Code of Iowa.

06-II-E Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CITY OF SHELDON
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Required Statutory Reporting - Continued

- 06-II-F Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- 06-II-G Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- 06-II-H Revenue Notes - No noncompliance with revenue note provisions were noted.
- 06-II-I Economic Development - We noted that the City paid the Sheldon Chamber and Development Corporation \$55,000 from tax increment financing revenues, \$38,040 from hotel/motel tax, and \$10,000 from local option sales tax.

In addition, we noted that the City paid the O'Brien County Economic Development Corporation \$5,504 from tax increment financing revenues.

It appears the City properly evaluated the public purpose and requires documentation of how the funds were used.